

Talking Technology

Create an awesome business plan to attract investors

By Steve Burns, Capital News contributor



Over the past few months I have reviewed over 30 business plans from technology companies seeking investment.

Unfortunately, while many of these plans read well, they fail to capture the interest of potential investors.

Many ask me, "But I did everything I was supposed to do... where did I go wrong?"

While there are many issues involved, too many business plans describe in detail everything but the underlying business concept, what makes the technology unique, where the competitive advantage is, what intellectual property they have and why an investor should care.

Writing a business plan is an enormous undertaking.

The most significant challenge is to create a business plan or "pitch" that gets investors to believe in you, your team and the concept.

Here are my top 10 hints that will help you create your compelling story:

1) Start with defining your ideal investor.

You need to know clearly the type of investor that you will be courting. For example, if you have already tapped out friends and family, then what type of angel investor are you looking for? Do you want their money, their time or both? Think of writing a business plan as creating a marketing message – who your audience is can radically change your message.

2) Be clear on your product concept and your competitive advantage.

This is a significant issue as your technology may be unique in the marketplace with no comparable technologies. Remember that not everyone reading your plan is a techno geek so explain the concept simply.

Just because you are the first one to have an idea, does not mean that it will stay that way. Describing your competitive advantage and developing a strategy to sustain it is an area of the business plan that is frequently neglected.

Yet, this is the piece that makes the strongest case for why you have a great business opportunity.

3) Provide market research to support why customers will “buy.”

I recently had a CEO tell me that “primary market research” is a complete waste of time. Well, I understand their frustration in trying to raise money for three years, market research could help to convince potential investors about the uniqueness of the market opportunity.

The purpose of primary market research should be not only to validate the product concept with potential users/buyers, demonstrate market size and growth potential but also to help you make a go/no go decision.

If you approach the market research in this way, you will be more objective in your analysis of the outcome.

There is nothing like using primary market research to refine your product concept and give credibility to your business plan.

Be prepare for the unexpected – the market research may tell you that your market is too either too large to dominate or too small to have enough upside for investors.

4) Develop a compelling business model.

Way too many business plans skip over the model of how they will generate revenue and profit from their product/service.

Will you manufacturer or partner with someone? Ultimately, the market need and what business model you will use to make money at it needs to be tightly integrated.

Be creative with how you will bring your product to market including how you will overcome any barriers to customers purchasing your product will be critical.

5) Describe your commercialization strategy.

It is not good enough to get an investor excited about a market opportunity and leave them with no confidence that you know what you are doing to commercialization the product. Prior experience will help but you need a commercialization strategy that describes how you will execute the plan, including the key milestone activities involved in moving from product concept to commercialization.

Describe what is needed to develop the technology and build market awareness, acceptance and adoption.

Providing a timeline which shows the key activities, their time frame for completion and the costs associated with each is a good way to link your request for seed capital with a tangible plan for business development. Remember, investors will hold you to your milestones so be realistic.

6) Be honest about your team's strengths and weaknesses.

Avoid overstating your credentials in an effort to look appealing to investors. Be clear about the expertise and passion you bring to the opportunity, but acknowledge your shortcomings and off-set these by forming an advisory board of people who have the experience and contacts needed to help move it forward.

This adds credibility to the concept and shows that you know your limitations.

7) Identify the risks and your contingency plan to address them.

To make a compelling business plan, you need to describe your critical assumptions and risks and offer a contingency plan for how you will respond. Acknowledging the downside and your plan to deal with this is not a sign of weakness.

8) Have an explicit strategy for growth and for exit.

Take the time to describe not only how you will exploit the market opportunity but realize that potential investors will have greater confidence in the idea if they know there are opportunities to leverage your technology into other applications. You also need to think about when and under what conditions you will exit the venture. Will you sell-out to a larger player when you reach a certain critical size?

Which companies are most likely to be attractive targets when this time comes? Do you plan to take this to IPO?

9) Make your projections achievable.

One of the plans that I looked at was so unrealistic that it damaged the credibility of the company to potential investors. One of the investors was knowledgeable about the specific marketplace and confirmed for me that if the company achieved its growth plans, it would have almost double other credible estimates of the entire size of the market – embarrassing!

When preparing your projections remember that it is better to dominate a small market than to have a small percentage of a large market.

List your key assumptions and know which variables are most sensitive in your plan. Also remember that investors will hold you accountable for your key financial milestones. If you want a round two of investment, make your numbers realistic and achievable.

10) Know how much capital you want, what you will give up to get it and who is most likely to give it to you.

After making your case for how much money you require to launch your venture and what it will be used for, be explicit about the "deal" you are proposing to potential investors. Describe your cash and "sweat equity" investment and what you are willing to give-up in terms of equity/control. Different types of investors have different requirements in terms of investment size, rates of return and time horizon so know your audience.

While there are many other business planning tips, think about the 10 points I have raised. Building an awesome, targeted business plan will help you attract investors.

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